Changes . . .

Continued from page 1

Some analysts said the change would have little effect on the market because money market rates had come down from double digits and are relatively lower than mutual fund rates.

However, Barbara Harrelson, public relations officer for the American Bankers Association, said, "It's going to offer a lot more flexibility," since customers may now choose between money market or certificate-of-deposit rates, or, in many cases, a discount brokerage fund in which to deposit their IRA dollars.

Meanwhile, the Internal Revenue Service has changed the IRA section of its tax form for 1983 returns and is considering further changes.

Taxpayers will be required to state on line 25b of their 1040 forms what portion of their IRA funds were deposited in 1984, a change from previous years, when only the total amount in IRAs needed to be reported.

A spokesman for the IRS, Ernest Acosta, said this will "help sort out how much of a deduction" taxpayers are entitled to for 1983, as some individuals may claim deductions on their 1983 returns for deposits made between Jan. 1 and April 15, 1983 — deductions already taken on their 1982 return.

Another change Mr. Acosta said is under consideration would prevent taxpayers from claiming a deduction before actually opening an IRA.

Last year, it was possible for some individuals to claim a deduction without having an IRA, and if they got their tax refunds early enough, to open an IRA before April 15 with the money from the refund. Mr. Acosta said preventive measures probably would not be taken on this problem in time for 1983 returns.

Voluntary Contribution Rule

Yet another possible change that could significantly affect IRA deposits is a "voluntary contribution" rule that was included in a recently defeated congressional bill, HR 4170.

The rule would allow customers to deposit an additional $1,750 in their IRAs, money that would be tax-deferred but not tax-deductible. Now, the maximum amount that can be deposited tax-deferred is $2,000, which is also deductible from one's income.

HR 4170, an omnibus financial bill, was defeated before Congress recessed for the holidays because of a controversial proposal to limit industrial development bonds.

However, according to one IRA analyst, House and Senate leaders have indicated that they see no problem with the IRA idea, and the Treasury Department also is leaning favorably toward it.

In fact, the IRA piece of the ominbus bill may be proposed as a separate bill, according to the analyst.

But an aide to Rep. Henson Moore, R-La., who worked on the omnibus bill, said of the package, "We have no idea how Humpty Dumpty is going to be put back together again."

The aide said that the IRA portion of the bill was "noncontroversial," but that the struggle to put the original bill together was so difficult that "nobody wants to get into it again."

If enacted in the next session of Congress, the extra IRA contribution would take effect retroactively on Jan. 1, 1985, in time for the 1984 tax returns.

Dispute over Citibank IRA Funds

Also, still unresolved is a legal dispute between New York's Citibank and the Investment Company Institute, a trade group for the mutual fund industry based in Washington, D.C.

The institute filed a suit when Citibank began offering in October 1982 a group of four commingled trust funds for IRAs, made effective by the Securities and Exchange Commission.

The Citibank Collective Investment Trust, much like a mutual fund, allows IRA customers to buy stocks and bonds in a self-directed account, invest in mutual-fund-type trust funds, and put money in any of the bank's savings accounts or certificates of deposit.

The institute claims Citibank is prohibited from offering the program by the Glass-Stegall Act, but since the time it filed the suit, Bank of California NA and Wells Fargo Bank NA, both of San Francisco, have developed similar arrangements with SEC permission.

— Philip T. Sudo

IRAs . . .

Continued from page 1

ing immediate sales and positioning themselves for the long run so they can keep their retirement account customers once they get them.

The Fidelity Group, which sold 200,000 IRAs last year, has increased its marketing budget for IRAs by 50% and made the product a "major marketing priority," according to Jane P. Jamieson, IRA product manager for the Boston-based mutual fund organization.

The campaign is based around direct-response mailings, print ads, and radio spots. (Television will not be used, she said, because it "is more of a broad-reach 'awareness' medium, for corporate image, and as a direct-response medium it has not worked out that well.")

Get Them in Early

The group's strategy this year is to get customers as early in the selling season as possible, Ms. Jamieson said. Thus, the firm will be "spending heavily in January and February," believing that banks have an advantage in the market as April 15 approaches because their branch networks make them more accessible.

"Last year, people called us on April 10 or 12, and we didn't have enough time to send applications out so they could send them back by April 15," she said.

Fidelity will use its own local offices in 30 metropolitan areas to sign up retirement account customers on the spot, but the hope this year is that customers will not wait until the last day to open their IRA, Ms. Jamieson said.

"There are a lot of procrastinators out there," she said, "and maybe they opened their account last year out of convenience. We're saying, 'Look, why don't you look around and take maximum advantage of your IRA?' If we can get people to shop around, I think they'll be very attracted to our funds."

➳ IRAs: Page 9

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IRAs . . .

Continued from page 8

For example, she said, Fidelity's aggressive-growth Magellan Fund, holding 83,000 retirement accounts, returned 78% through Sept. 30 last year.

While such performance is rare — and riskier than that of insured accounts — other firms have found rate-advertising to be an effective selling point.

20% Growth at Northwestern

Northwestern Mutual Life Insurance Co., the nation's ninth largest insurer, promised in advertisements last year a 20% return on its managed IRA fund. It returned slightly more than that figure, according to John E. Caspari, advertising and corporate information officer for the Milwaukee-based firm.

In addition, he said, the company's bond fund for retirement accounts returned more than 25% last year.

The managed fund, known as the One Fund, "probably won't return 20% this year, but it will certainly outperform [certificates of deposit]," Mr. Caspari said. "We're very good investors."

After opening 27,000 new IRAs in 10 months this year — a 230% hike over 1982 — Mr. Caspari is confident the company can repeat its performance in 1984.

More agents are licensed to sell the product now, he said, and "as customers get more enlightened about rates, I'm sure they'll switch to higher-yielding funds."

Some insurers have been less aggressive in selling IRAs, particularly because the commission for agents is relatively low. However, Mr. Caspari said, "The commission is only $60 [per new account], but our agents have come to recognize that this is an excellent door to selling other products," noting that more than 5% of IRA customers were cross-sold other Northwestern Mutual products this year.

The company's advertisements this year, he said, will stress the One Fund's performance over two years, during which time it has returned 34%. "Thirty percent-plus growth in IRA advertising is pretty arresting," he said.

It is unlikely that banks will try to compete in a rate war with the stock and bond funds in other industries, although as Chemical Bank's Elizabeth Taller said, "There is tremendous rate sensitivity among people who are shopping around."

Need to Find Right Point

Ms. Taller, director of advertising and product development manager, said, "Sometimes they will come to you even if your rates are lower because of safety and convenience. The trick is [to find out] where that lower point is. If you start pricing at one percentage point lower than the competition, you're going to lose."

Chemical, which won awards for a 1983 IRA marketing campaign that openly compared its rates to the competition's, will offer 12-month and 5-year CDs for retirement accounts this selling season, she said, after discovering that the traditional 18-month CD was difficult for customers to manage because it matured during a time when tax concerns were not foremost in their minds.

Contrary to what some analysts think, Ms. Taller said that rather than losing customers to higher-yielding funds elsewhere, banks may actually gain customers from those funds.

"An IRA investment in stocks in 1983 is not what I would associate with risks," she said, referring to the bullish performance of the market last year. "In the long run, the FDIC-insured security of bank products will [keep] retirement funds."

Yet Don Underwood, manager of Merrill Lynch, Pierce, Fenner & Smith Inc.'s retirement plans division, said, "I don't think people ever reject us because of risk. What you want with us is total return. Our products are value-added; we charge fees, because what you're paying for is the knowledge and professional expertise of our investment account executives."

The company will be pursuing people who opened retirement accounts before the account qualification requirements were changed in 1982. (Prior to the change, only those workers not covered by employer-sponsored pension plans were eligible for IRAs.) More than $26 billion was in such accounts through last April, according to the Investment Company Institute, a trade group for the mutual fund industry based in Washington, D.C.

While Merrill will also continue luring those "upscale" investors who are in tax brackets of 30% and up — "they understand how vital this tax deduction is" — Mr. Underwood said Merrill plans this coming year to "treat the $2,000 account seriously."

Previously, perhaps, brokers were reluctant to work with small investors, but now a conscious decision has been made "to take the time and grow with the account," he said.

"It may be their [the small investors'] first entry into the market, and we want it to be long term," he said.

IRAs, he added, "may be the most important investment a person can have now. People are more mobile — nobody stays with a company for 30 years anymore — so you don't know what your pension arrangements are going to be."

Like Merrill, Dean Witter Reynolds Inc. this year will be targeting the upscale household with an income of more than $30,000. But, said first vice president Porter P. Morgan, it is also positioning itself for the vast business of middle America.

The subisidiary of Sears, Roebuck and Co. now employs account executives in each of the 200 Sears Financial Centers around the country — a fast-growing network that recently observed its first anniversary.

Those financial centers are open all the hours that Sears stores are open, including most evenings, weekends, and holidays, Mr. Morgan said. "We attract an enormous amount of attention from just the floor traffic alone," he said, adding that as a product, individual retirement accounts are "very attractive within the store's sales environment. Sears is a great name in middle America."

Mr. Morgan said he is confident brokers can capture a greater share of the IRA market in 1984, noting that Dean Witter will keep its sales offices open in the evenings during the week

➤ IRAs: Page 10

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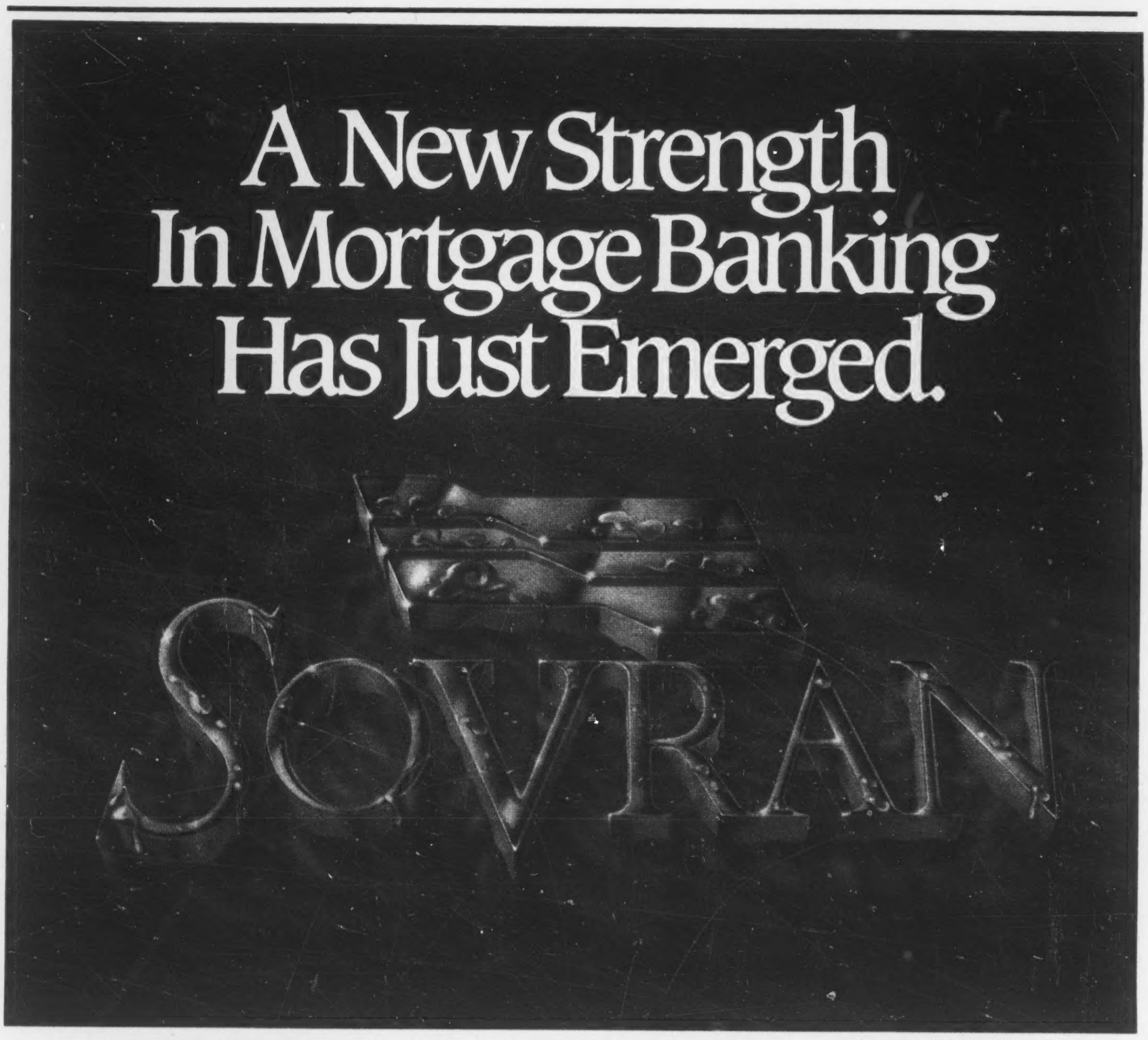

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The Markets

Money Market

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Discount rate FRB of New York (12/14/82).....8½%
Call Loans on Securities:
To brokers on stock exchange collateral.....11%
To dealers on U. S. Gov't Securities.....N.A.

Bankers Accepts. offering rate—discount basis (1/6/84):
30 days— 9.35 60 days— 9.30 90 days— 9.30
120 days— 9.35 180 days— 9.27

N.Y. City Banks' CDs — Highest Offering Rate (1/6/84)
14 days— 8⅞ 30 days— 9.10 60 days— 9.15
90 days— 9.20 120 days— 9.25 150 days— 9.30
180 days— 9.35 270 days— 9.45 360 days— 9.55

Aaa Dealer Comm'l Paper—discount basis (1/6/84)
30 days— 9.25 60 days— 9.25 90 days— 9.25

Comm'l Paper Directly Placed—Range disc. basis (1/6/84)
5-14 days— 8-9.30 15-29 days— 8-9.30
30-59 days— 8-9.20 60-89 days— 8-9.20
90-179 days— 8-9.20 180-270 days— 8-9.05

Eurodollar Deposits—London bid (1/6/84)
Overnight— 9¾ 7 days— 9½
1 mos.— 9¾ 3 mos.— 9 13/16
6 mos.— 10 1 year— 10⅜

NIBOR (6-month).....10⅛
LIBOR (6-month).....10⅛

Futures Markets

3-Month Domestic CD Futures (IMM)+

Delivery Month	High	Low	Settlement	Change (a)	Yield (b)
Mar. '84	90.15	90.08	90.13	unch	9.87
June '84	89.76	89.72	89.75	unch	10.25
Sept '84	89.44	89.40	89.43	unch	10.57
Dec. '84	89.16	89.11	89.16	+ 1	10.84
Mar. '85	88.89	88.85	88.89	+ 1	11.11
June '85	.....	.....	88.66	unch	11.34

As of the previous day's close; Total no. of contracts traded: 5,692; total open interest: 25,557; and change in open interest: —99

3-Month. T-Bill Futures (IMM)++

Delivery Month	High	Low	Settlement	Change (a)	Discount Yield (b)
Mar. '84	90.87	90.79	90.86	+ 4	9.14
June '84	90.53	90.46	90.52	+ 3	9.48
Sept '84	90.25	90.20	90.24	+ 2	9.76
Dec. '84	90.00	89.96	90.00	+ 2	10.00
Mar. '85	89.77	89.74	89.77	+ 1	10.23
June '85	89.51	89.54	89.56	unch	10.44
Sept '85	.....	89.34	89.36	— 2	10.64
Dec. '85	.....	89.17	89.18	— 2	10.82

As of the previous day's close: Total volume: 15,643 total open interest: 42,239; and change in open interest: +721

American Banker Index

Selected Money Center Bank Stocks +

			High	Low	Last
Jan. 6	262.3	1984	262.3	250.0	262.3
Jan. 5	260.6	1983	299.5	223.1	250.2
Jan. 4	253.1	1982	258.2	158.7	233.2
Jan. 3	250.0	1981	186.0	138.0	184.2
Dec. 30	250.2	1980	196.1	150.3	165.1

+ based on midday prices.

Gold Coins

Coin Name & Weight	$ Value per Coin Jan. 6	Jan. 5
Krugerrand (1 Troy oz.)	392.00	394.00
Maple Leaf (1 Troy oz.)	392.00	394.00
Mexican Peso (1 Troy oz.)	392.00	394.00
Chinese Panda (1 Troy oz.)	403.00	405.00
U.S. Armstrong (1 Troy oz.)	392.00	394.00
Mexican 50 Peso (1.2 Troy oz.)	458.00	461.00
Austrian 100 Corona (.98 Troy oz.)	371.00	373.00
Mexican 20 Peso (.48 Troy oz.)	192.00	193.00
S. Afr. ½ Rand (.50 Troy oz.)	204.25	203.00
U.S. Wright (.50 Troy oz.)	196.00	197.00
Austrian 1 Ducat (.11 Troy oz.)	45.50	45.50

These quotes represent the N.Y. fixing price, which are a midprice between what buyers are bidding and sellers are asking. The prices are quoted by Deak Perera, but may vary among dealers, depending on market conditions.

Spencer . . .

Continued from page 3

policy toward banks.

The SEC is considering regulation of banks engaging in securities brokerage, thrift institutions operating pooled trust funds, and money brokers soliciting deposits for depository institutions.

Both the banking and securities industries are familiar with Chairman Shad's regulation-by-function philosophy. But Mr. Spencer and others say the upcoming changes in the commission's membership make it hard to predict the future direction of the agency in regard to bank regulation.

One of the five commission seats is now empty and another will be vacated by Bevis Longstreth this Friday. And Charles E. Cox was sworn in less than two months ago to replace former Commissioner John R. Evans, who last year completed his second five-year term.

Until the two seats are filled, the SEC will be run by Chairman Shad and commissioners James C. Treadway Jr. and Mr. Cox. ■

Competition May Win Bigger Share of IRA Money

By PHILIP T. SUDO

NEW YORK — "As long as a huge deficit exists on the federal level, you're going to be able to sell IRAs effectively," said Ira Nathanson, president of Consolidated Group Marketing Inc., a consulting firm in Chicago. "The so-called 'settlement' of the Social Security issue has not done much for consumer confidence."

On that point, industry analysts agree. It is who will get what portion of the IRA money that has the analysts and researchers debating.

Since the beginning of 1982, when all wage earners became eligible for the product, banks have dominated the financial services industry in their share of the market.

Now, however, as the accounts begin to accrue interest and customers add to existing IRAs, there is some feeling that mutual funds, brokers, and insurers may be able to snare a greater share of the market.

The reason? "They can pay more," said Robert Ladner, president of Behavioral Science Research, a research firm based in Coral Gables, Fla. "Banks just don't know how to handle their portfolios yet; they're less likely to generate aggressive growth for the long-term investor."

Also, mutual funds are taking "a much more aggressive posture" in their IRA advertising, Mr. Nathanson said, while "the banking community has done very little at this point."

While banks seem to have decided they no longer need to advertise their money market deposit accounts to compete with mutual funds, "they can't do that with IRAs," Mr. Nathanson said. "Unless they continue to aggressively market them, they're going to lose their accounts."

Advantage in the Middle Market

Jewell G. Westerman agreed. Mr. Westerman, principal for the Lexington, Mass., consulting firm of Temple, Barker & Sloane Inc., said, "Banks have had the advantage in the middle market, where the key thing is that they're easy to do business with. As companies like Fidelity and Sears start reaching for that market with their own network of outlets, banks are going to lose an awful big part of it if they're not careful. Sears knows a heck of a lot more about what motivates middle America than banks do."

Richard B. Ross, publisher of Market Facts' Household Investment Monthly Report, noted that there is "enormous opportunity" for mutual funds just within their existing clientele. His research showed that only 60% of mutual fund owners have IRAs, and of that 60%, only 20% contribute to a mutual fund IRA, while 54% have IRAs in bank savings certificates. "If the mutual funds are paying attention, they'll go after the present owners of their funds."

Once the banks start marketing aggressively, though, Mr. Nathanson thinks they will have a competitive advantage in an IRA marketing war because "people do not like to risk funds they're planning to retire on, and they still associate mutual funds with risk."

Average Age Is 48

Mr. Nathanson cited a recent Market Facts survey of 5,000 households that showed that 45% of IRA holders are between the ages of 55 to 64 and 35% are in the 45 to 54 age group. The average age of an IRA holder is 48 — not an age at which one takes risks, generally.

The Market Facts survey also showed, however, that the average age of people who plan to open IRAs is somewhat lower — 37. "They are more risk oriented and, to a large extent, are using IRAs as a tax-saving vehicle as opposed to pure retirement money," said Mr. Ross.

The difference between perceiving IRAs as a tax shelter rather than retirement savings is what Mr. Ladner believes will eventually favor industries paying higher yields.

Consumers in the 25-to-40 age group represent the major growth group for IRAs, Mr. Ladner said. And for them, IRAs are "their only long-term investment."

As with bank deposits, a version of the "20-80" rule — where 20% of the depositors hold 80% of the deposits — holds for IRAs, he said.

'Big Dinosaurs Going to Die Soon'

However, account holders with large balances are generally "big dinosaurs who are going to die soon," Mr. Ladner said, "so you can't write off the millions with their smaller accounts. You have to sell a lot of small accounts to replace one big one. And pretty soon the small-account holders are going to be the next dinosaurs sitting on top of $30,000 to $40,000, and you'll be wondering how to keep their accounts."

Initially, younger investors "won't spend much time supervising the growth of a $2,500 nest egg," he said. "But after a few years, they may have, say, three CDs totaling $7,500 and the awareness of their holdings having reached a point where there's a tendency to consolidate and manage aggressively.

"IRAs don't look like retirement money until you're over 45," he said.

Thus, a major marketing strategy likely to emerge from mutual funds, brokers, and insurers, Mr. Ladner said, is one that shows consumers how to consolidate several bank certificates of deposit into a single IRA account. "The moment that CD matures, they're going to want to roll it over into a high-yielding fund," he said.

'Bank CD IRAs Still the Main Game'

"Younger people aren't hung up on FDIC insurance," he went on. "Old people want that, but the younger ones don't remember banks failing; they want high return. Brokers are drooling for their business."

For at least 1984, though, the analysts will agree, as Mr. Ross said, that "bank CD IRAs are still the main game."

Banks should dominate the field again in opening first-time accounts because they are convenient and because so far, Mr. Ross said, account holders are "still saving their money one year at a time," with little long-range planning.

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IRAs . . .

Continued from page 9

before April 15 to facilitate last-minute sales.

Including its own sales offices, the brokerage firm has increased its staff of account executives to 6,000, a 20% increase over last year, said Mr. Morgan.

The Thrift Industry's Expectations

The thrift industry seems equally sure it will increase its market share in the next few months because "in '81 and '82, there was a cloud over our profitability," said James Christian, chief economist for the U.S. League of Savings Institutions.

"Now that we've turned the corner and are not questionable cases anymore, I think we'll have a good market push," he said.

Mr. Christian said one change in strategy this year will be "more direct contact. We've found that the way to sell tax-deferred products is through direct mail and telemarketing, rather than the 'how to become a millionaire in 20 years' kind of advertising. The public perceived that stuff as overselling."

Walter G. Mullins, executive vice president for American Financial Services Inc., an affiliate of the National Council of Savings Institutions, agreed with Mr. Christian. "The biggest change I see in our savings banks is a professional commitment to sales training," he said.

"A few years ago, 'selling' consisted of saying, 'Thank you, Mr. Jones.' Now, the deposits we're going after have to be sought with more aggressive skills." He cited telemarketing and out-of-branch community sales presentations as two of the methods.

Target: Existing Customers

Sun Banks Inc., a bank chain headquartered in Orlando, Fla., is developing a similar strategy for this year, with primary concentration on its existing customers rather than the general marketplace — target marketing as opposed to mass marketing.

N.W. "Red" Pope, senior vice president of marketing for the chain, said, "Banks are beginning to understand segmented needs a lot better, so I think in general you'll see more selling to your own customers, because those are quality customers.

"We can inform them baldly through ads," Mr. Pope said, "but there needs to be a conversation, a dialogue, because the product has not been well communicated."

In fact, retirement account marketers unanimously agree that customer confusion is widespread and that further education is necessary. Many firms having already planned educational campaigns for the coming months.

Among the misconceptions marketers commonly cite:

- Once an IRA is opened, it has to be added to every year.
- If you want another IRA, you have to open it in the same place as your first one.
- IRA funds are "lost forever" and cannot be withdrawn before age 59½.
- You cannot open an individual retirement account for less than $2,000.
- You can't have more than one IRA or you can't divide your funds between different accounts in the same year.

Chemical Bank, among other firms, has planned a series of retirement account seminars that "are not hard-sell in any way," Ms. Taller said. The bank, she stressed, will "continue to use consumer education as a tool."

"But," she added, "it's not easy for people to become money managers overnight." ■

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VOL. CXLIX NO. 28 | Thursday, February 9, 1984 | 149th Year

Discount Broker Service Thrives By Staying Small and Anonymous

By JOHN MORRIS

CHICAGO — Discount brokerage at Springfield Marine Bank is unusual for several reasons, not the least of which is that it makes money.

And it will make more each time the Springfield, Ill., bank signs up another institution to its program.

As many smaller banks become disillusioned with the Big Brother approach to discount brokerage offered by the large discounters, the $551 million-deposit downstate Springfield Marine Bank and the highly localized Mesirow and Co. Inc. brokerage of Chicago have joined forces to sell a different product.

Now, the privately held Mesirow is looking for banks in each state to franchise the discount brokerage operation the same way that Springfield Marine does in Illinois.

Two features immediately separate this discount service from many others: first, there is no toll-free telephone number as customers deal only with the bank; and second, the bank's list of accounts remains secret.

Springfield Marine believes this secrecy is very important. At what point will the large discounters drop

➳ Discount: Page 30

Fed Fears Regulatory Erosion From Industrial Bank Activity

By BART FRAUST

NEW YORK — The Federal Reserve Board is getting increasingly jumpy about industrial banks — vehicles for interstate banking that have been used by large bank holding companies for over a decade — and it wants help from Congress now.

News Analysis

The Fed this week approved applications by Citicorp of New York to start industrial banking operations in Tennessee and Kentucky and by Mellon National Corp. of Pittsburgh to acquire an industrial bank in Colorado.

However, in both the Citicorp and Mellon rulings, the Fed warned that acquisitions of industrial banks by out-of-state bank holding companies can potentially undermine the Bank Holding Company Act of 1956.

In addition, the Fed decisions signaled that the board wants the definition of a bank for the purposes of the Bank Holding Company Act of 1956 changed to eliminate another loophole by which nonbanking firms enter the commercial banking industry.

In this case, the Fed urged Congress to include under the definition of commercial banks any industrial banks that

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List of Penn Square Abuses Grows

By JAY ROSENSTEIN

WASHINGTON — Federal officials investigating the failure of Oklahoma's Penn Square Bank now have discovered 451 instances of possible criminal offenses — almost double the number the same authorities said had been uncovered last June.

The latest information was released Wednesday in an update — issued by the Federal Deposit Insurance Corp., which is acting as the bank's receiver and conducting a criminal analysis, along with the Federal Bureau of Investigation — of the situation at the Oklahoma City institution.

The FDIC said evidence of possible criminal offenses has been referred to the Justice Department for potential prosecution. In June, 245 cases of possible violations had been reported.

In addition, the FDIC again estimated that depositors with Penn Square accounts in excess of the $100,000 insurance limit may recover only 65% of their uninsured funds. As the agency said last June, this recovery rate is a tentative estimate that could change, depending on the outcome of asset collections and lawuits.

Nonetheless, the FDIC has warned that uninsured depositors in Penn Square can expect to recover a smaller percentage than in most bank liquidations — the result of the poor quality of the bank's assets, the extent of litigation involving the failure, and the "generally depressed state of the energy industry," to which much of the bank's loan portfolio was committed.

About 800 different lawsuits on Penn Square in which the FDIC is a party are pending, according to the information released Wednesday. Last June,

➳ Penn Square: Page 31

CalFed to Buy Life Insurance Firm

S&L Holding Company Looking for More Acquisitions

By DAVID LaGESSE

NEW YORK — CalFed Inc., the Los Angeles-based holding company of California Federal Savings and Loan Association, on Wednesday announced plans to buy a life insurance company.

The thrift will acquire the life insurance subsidiaries of Beneficial Standard Corp., also of Los Angeles, if approved by state insurance regulators and the insurance company's stockholders.

CalFed joins a growing number of thrifts that are buying into the business of insurance underwriting, on top of the many — including CalFed — that already act as agents for independent insurance carriers.

"Now that we have a holding company that can make the acquisitions, we are looking to invest in businesses that are not so sensitive to interest rates," said Phillip Myers of CalFed.

CalFed also has money to invest. The thrift will pay about $125 million to Beneficial Standard — financing 15% of the sale with short-term notes but paying the bulk in cash.

Thrift Buys Chicago Broker, Page 23

Besides converting last year to a holding company, CalFed also converted to a stock company. The thrift raised $387 million by selling shares of common stock in April — the third largest new issue of corporate stock in U.S. history — and sold $115 million in convertible preferred stock last month.

Total savings deposits increased 46%

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INSIDE

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What Analysts Say
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Attract and Retain Talent
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"There is nothing sinister in so arranging one's affairs to keep taxes as low as possible. Everybody does so, rich and poor; and all do right, for nobody owes any public duty to pay more than the law demands: taxes are enforced exactions, not voluntary contributions. To demand more in the name of morals is mere cant."

Judge Learned Hand

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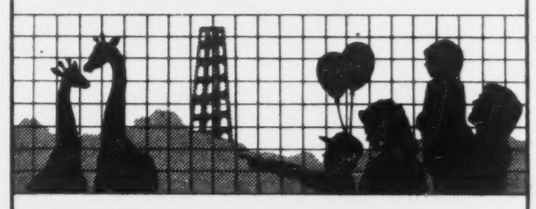
Wildlife is thriving in Indianapolis



The Indianapolis Zoo, the largest in the nation not supported by tax dollars, is going to get larger. By the late 1980's the zoo will have tripled its land size and increased its population 5 times when it moves to White River Park. By employing natural buffers such as land and water moats and rock formations this natural zoo will rank alongside the finest zoos in the country. In the spirit of expansion, American Fletcher, Indiana's largest bank, commends the effort of the Indianapolis Zoological Society.

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Investment Management

Retaining Staff Is Key to Trust Banking Success

By ANISE WALLACE

SAN FRANCISCO — Attracting and retaining talented investment professionals is the key to successfully running investment management departments of trust divisions, trust bankers meeting here have been told.

David M. Reichert, executive vice president of InterFirst Investment Management Inc. in Dallas, and James B. Fox 3d, president of First Interstate Investment Services Inc. of Los Angeles, made the point in remarks to almost 1,000 trust bankers at the annual American Bankers Association trust conference.

Both executives began their speeches by acknowledging that investment management is a people-intensive business, and banks must learn to create an environment conducive to keeping talented people productive.

"We are in a creative service business, like advertising or entertainment," said Mr. Reichert. "And lately it's becoming like professional sports with the salaries that are being handed out."

Quoting David Ogilvie in "Confessions of an Advertising Man," Mr. Reichert said the role of managers in investment organizations was "to provide an atmosphere in which creative managers can work."

Even though First Interstate in Los Angeles has gone about building an investment organization by acquiring specialized firms instead of building its own structure, Mr. Fox echoed many of Mr. Reichert's comments about investment professionals. "In the investment business, each morning, everyone is an equal," he said. "Title and rank have nothing to do with success."

To ensure that the professionals are happy and financially rewarded, Interstate keeps the acquired organizations as separate entities with their own boards of directors and profit-and-loss statements. This way, the bank can delegate control to the investment professionals, who can have financial incentives distinct from the commercial bank and are removed from the bank atmosphere. ■

The Top 10 Trust Revenue Producers

(Dollars in Millions)

		— 4th Quarter —			— Entire Year —		
		1983	1982	Change	1983	1982	Change
1	J.P. Morgan & Co. Inc.	$57.9	$49.1	+17.9%	$218.2	$189.6	+15.0%
2	Bank of New York Co. Inc.	41.3	36.7	+12.5	144.9	119.0	+21.7
3	Citicorp	36.9	34.5	+ 6.9	139.8	132.6	+ 5.4
4	Chase Manhattan Corp.	32.0	26.0	+23.0	120.0	103.1	+16.4
5	Bankers Trust New York Co.	34.8	22.4	+55.4	117.5	90.5	+29.8
6	Manufacturers Hanover Corp.	25.3	21.4	+18.2	91.7	75.7	+21.1
7	Northern Trust Corp.	23.7	16.1	+47.2	88.8	72.6	+22.3
8	BankAmerica Corp.	23.3	20.7	+12.5	88.4	70.4	+25.5
9	State Street Boston Corp.	20.1	15.7	+28.0	76.4	58.3	+31.0
10	Chemical New York Corp.	21.1	18.4	+14.6	75.2	67.3	+11.7

Valley Trust Takes Republic's Advice

First Bank to Sign Up for Mutual Fund Service

SAN FRANCISCO — Valley Trust Co. in Appleton, Wis., has become the first bank to sign up Republic National Bank of New York's mutual fund advisory service.

According to Mark L. Miller, president of the trust company affiliate of Valley Bancorp., the bank will begin marketing the new service in April.

The service, developed by Michael D. Hirsch, chief investment officer of Republic, is designed for trust departments that want to offer their clients mutual funds. Republic selects the mutual funds and helps the trust department to allocate the assets among stock, bond, and money market funds.

Republic will also select tax-exempt funds for the personal trust clients of Valley.

Valley has about $260 million in managed trust assets. The split between institutional trust assets and personal trust assets is almost even.

Valley's trust department has two investment professionals responsible for the seven pooled funds.

In the six years since Mr. Miller joined the bank, it has grown from $28 million to the current size. Although the bank has had what Mr. Miller calls a "satisfactory" performance, he wanted to plan for the future.

"As I look forward, I don't feel an organization our size can staff competitively on the investment side," he said. "We had to find an investment alternative."

The bank began looking for an alternative to its traditional investment management service one year ago. Mr. Miller looked at the products offered by the Frank Russell Co., Dreyfus, the Fidelity Group, and Federated Investors.

"We could have done it with any of them, but from our assessment, we felt this would be the most attractive to market in Wisconsin," said Mr. Miller.

The bank hopes to attract $45 million in new business in the first year. With the help of the Laughlin Group, which markets the service in conjunction with Republic, the bank will target corporate employee benefit and upscale individual prospects in the next several months.

In the beginning, the mutual fund service will be used only for new business. The $260 million in current managed assets will not be changed over to the new system. Said Mr. Miller: "You just don't make precipitous changes in your approach."

Valley will be the only bank in its designated "region" to use Republic. The bank has agreed to an exclusivity arrangement for the first bank in each region to sign up.

— Anise Wallace

Buy Now, Don't Wait For Market Bottom, Trust Bankers Told

SAN FRANCISCO — The stock market could go down another 10% to 15%, according to a securities executive, but he advised trust bankers not to try to wait for it to bottom out before they begin buying stocks.

"The stock market is similar to a runaway truck," Greg A. Smith, executive vice president of Prudential-Bache Securities Inc., told those attending the American Bankers Association trust conference here.

"No one should try to stop it by stepping in front of it."

Likewise, investors trying to identify the bottom of this falling market might be blindsided by its rapid decline.

While Mr. Smith said that Prudential was not optimistic about the "here and now," he thinks the market, for the year, will be flat and maybe higher than it was at the beginning of 1984. Most of the

➳ Smith: Page 22

Buckey Promoted at United Virginia

Malcolm A. Buckey Jr. has been named to head United Virginia Bank's personal trust division. A senior vice president and manager of personal trust, Mr. Buckey is responsible for overseeing the Richmond bank's personal trust operations statewide.

Portfolio

He succeeds William J. Lewis, who was named executive vice president in charge of the trust group. Mr. Buckey joined the bank in 1980 from Provident National Bank in Philadelphia, where he had been a vice president and manager of new personal trust business.

Putnam Management Co. in Boston is offering a new trust, the Putnam Corporate Cash Trust. The fund is designed to generate after-tax income for corporate cash reserves. Dividends from the trusts will qualify for the 85% dividends-received deduction allowed by the Internal Revenue Service.

Putnam will offer two different investment strategies. One will invest in adjustable-rate preferred stocks. The other will offer a more diversified asset mix, including high-yielding common stocks, adjustable-rate preferred stocks, regular preferred stocks, Treasury bills, and other cash equivalents. In this latter strategy, Putnam will write options against some of the stocks. ■

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Ruling May Put Nonbanks Back on Track

Court Says NOWs Not Demand Deposits

By BART FRAUST

NEW YORK — A ruling by a federal appeals court this week could ease the entry of nonbank companies into banking.

The decision — handed down by the U.S. Court of Appeals for the 10th Circuit in Denver — raises questions about the validity of the expanded definition of a bank included in the Federal Reserve's revised Regulation Y, which took effect this month.

Specifically, the court held that negotiable order of withdrawal accounts are not demand deposits for purposes of the Bank Holding Company Act.

The ruling overturned a March 1982 Federal Reserve Board decision on a Utah banking company's attempt to acquire two industrial banks.

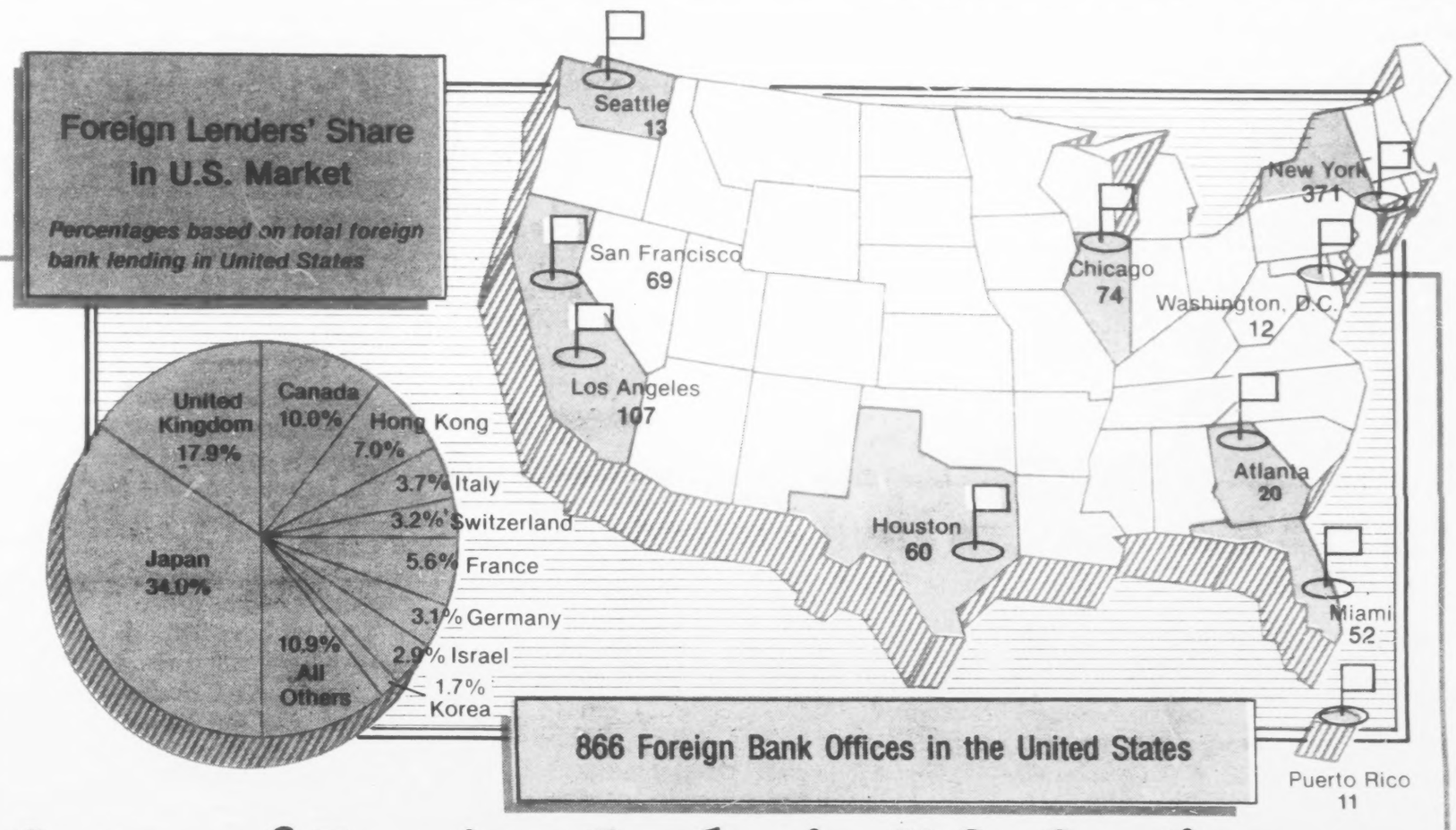
Under the court decision, a Merrill Lynch could operate a company that makes commercial loans and offers the checklike NOWs and yet not come under the aegis of the Bank Holding Company Act since its subsidiary was not technically a bank.

In its decision, the appeals court scolded the Fed for attempting to legislate policy by regulatory fiat.

The decision also may have interstate banking implications.

In recent decisions allowing Citicorp to establish industrial banks in Tennessee and Kentucky and Mellon National Corp. to buy an industrial bank

➤➤ NOW: Page 43



Surge of Foreign Banks in U.S. Continues

By L. MICHAEL CACACE

NEW YORK — Foreign banks substantially increased their presence in the United States for the third year in a row last year, as they continue to position themselves in the stable and potentially lucrative U.S. market.

This is one of the findings of the American Banker's annual survey of foreign banking in the U.S. published today in a special section as part of this paper's International Banking Annual.

At midyear 1983, 226 foreign banks from 52 countries had 558 full-scale banking offices in the U.S. These included branches, agencies, commercial bank subsidiaries, Edge Act banks, New York State investment companies, and finance companies. This represents a gain of 14.8% from a year earlier, when 201 banks from 42 countries had 486 full-scale U.S. banking offices.

During the previous 12-month period ended June 30, 1982, the number of banking offices rose 14.4% to 486 offices from 425 on June 30, 1981.

South American banks led the way for foreign banks establishing full-scale banking operations in the United States for the first time in 1983. Twenty-five foreign banks — 11 of them South Americans — started full-scale operations in the U.S. last year.

The largest contingent of new South American banks was from Brazil, with four banks establishing full-scale operations. Following Brazil were Panama and Venezuela, with two banks each, and Colombia, Ecuador, and Peru with one apiece.

In addition, all South American banks in the United States, including

➤➤ Foreign: Page 8

Foreign Leaders In U.S. Banking

	Banks	U.S. Offices	Business Loans
Japan	24	75	$29.3B
United Kingdom	11	50	$15.4B
Canada	8	50	$ 8.6B
Hong Kong	9	22	$ 6.0B
France	14	35	$ 4.8B

INSIDE

INTERNATIONAL BANKING ANNUAL:

A Look at the World's Major Financial Centers

A look at the major international financial centers is provided in today's special feature section. M.S. Mendelsohn, the American Banker London correspondent, says London is still the monarch of international finance but that the United States is catching up rapidly. Other journalists from around the world look at new developments in the United States, the United Kingdom, Germany, Switzerland, Luxembourg, Japan, Hong Kong, and Singapore, beginning on page 11.

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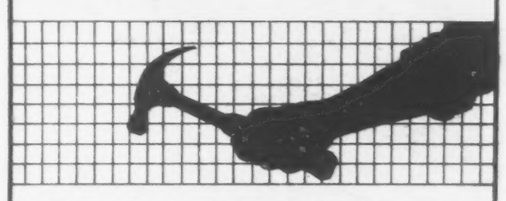
Improving Indianapolis Neighborhoods



Thanks to the Urban Reinvestment Program, owners of older homes are receiving low interest rate loans, subsidized by funds from foundations and Urban Development Action Grant funds, for renovation purposes. A Reinvestment Task Force reviews loan applications, inspects homes, and finds contractors. American Fletcher, Indiana's largest bank, has been a leader in this unique program to rehabilitate older homes and provide affordable housing. The Urban Reinvestment Program is one of many projects which helped Indianapolis win the All-America City award.

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